



PRESS-REGISTER

Benefits warning given on state prepaid college plan

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Business Reporter

The state's prepaid college tuition program has sent a letter to all participants saying that it is working with the state's public colleges and universities to "allow PACT benefits to be consistently paid" in the face of major losses in the stock market.

It's unclear how badly the Prepaid Alabama College Tuition program has been hurt. Three board members said Monday they don't have final financial data for the year that ended Sept. 30, 2008. The board is expected to meet this month to examine that report and consider options, they said.

When asked whether current contract holders should expect that their children's college costs will be covered, state Treasurer Kay Ivey said, "That's a fair question."

Ivey, whose chair the fund's board and whose office administers the fund, declined to say what options might be considered. She said she sent the letter, dated Feb. 27, to alert parents that there could be a problem and promised updates every Friday on the fund's Web site.

PACT, since 1990, has sold contracts meant to cover the future costs of in-state undergraduate tuition, good at any of Alabama's public two-year and four-year colleges. Students can also receive the average cost of in-state tuition to attend a private college or out-of-state public college.

More than 48,000 contracts are outstanding, though far fewer students are in school.

The fund had almost \$484 million invested on Dec. 31.

The program's most recent actuarial report, from Sept. 30, 2007, said it had 97.6 percent of assets needed to cover future liabilities. Then, PACT had \$899 million invested.

Board member Gregory Fitch, executive director of the Alabama Commission on Higher Education, said the fund could stop taking new enrollees.

Joseph Hurley, head of New York-based Savingforcollege.com, said seven states have stopped enrollment in recent years. Typically, when a fund closes to new participants, it tries to honor existing contracts, Hurley said. However, New Mexico liquidated and gave money back to contract holders, he said, and Texas set up a new plan where colleges and universities may not get the full cost of tuition.

"People generally don't realize that the plans themselves run the same investment risks as individuals," Hurley said. Though some states guarantee to make up shortfalls, Alabama does not, he said.

In Alabama, a four-year tuition contract costs between \$23,938 and \$25,650, depending on the age of the child covered, with payment plans available.

The PACT board projects that investments will return an average of just over 8 percent a year, rising to 8.5 percent beginning in 2013. It projects tuition at the state's public colleges will rise 7.25 percent, on average.

But investments fell steeply in 2008, and are projected to fall again this year, according to a chart distributed by Ivey's office Monday. Meanwhile, college tuition is expected to increase more than 7.25 percent on average, according to the same chart.

Colleges and universities typically levy big tuition increases in years when they fare poorly in the state budget. Most state leaders await firm projections of federal stimulus money for 2009-10 before predicting how higher education will fare. Absent federal funds, colleges and universities would be facing steep cuts.

Two-year college Chancellor Bradley Byrne, also on the board, said PACT representatives last week said tuition increases make it harder for the fund to meet its obligations but "didn't ask us to do anything specifically."

The state also sponsors a separate 529 college savings program, where investors make their own choices and the state does not assume responsibility for making sure funds are adequate to pay tuition. The 529 program was not mentioned in the letter.

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